CUSTOMER DIVIDEND INCENTIVE COMPANY

SETTLEMENT RATE DEVELOPMENT

Common Line (CL) Access:

97/98 Test Period (TP)
April '97 Annual Filing

For Each Customer Dividend Incentive Study Area

First Common Line Settlement Rate per MOU (**DCA1**) =

As of February '97:

[½ X 1995 RRQ @ 11.25% + 1996 RRQ @ 11.25% +
½ X 1997 RRQ @ 11.25% +
{(7/97 → 6/99 Exogenous Changes)} -
(7/95 → 6/97 End User Revenue)]

÷

[(7/95 through 6/97 CL Access Minutes) X
(7/96 → 6/97 Access Minutes)/(7/95 → 6/96 Access Minutes)]

98/99 Test Period (TP)
April '98 Annual Filing

For Each Customer Dividend Incentive Study Area

Second Common Line Settlement Rate per MOU (**DCA2**) =

As of February '98:

[½ X 1995 RRQ @ 11.25% + 1996 RRQ @ 11.25% +
½ X 1997 RRQ @ 11.25% +
{(7/97 → 6/99 Exogenous Changes)} -
(7/95 → 6/97 End User Revenue)]

÷

[(7/95 through 6/97 CL Access Minutes) X
(7/96 → 6/97 Access Minutes)/(7/95 → 6/96 Access Minutes)]

SMALL COMPANY INCENTIVE PLAN

COST COMPANY SETTLEMENT RATES

Traffic Sensitive Switched (TSSW) Access

95/96 Test Period (TP)
April '95 Annual Filing

For Each Small Cost Company Incentive Study Area

First Initial Switched Settlement Rate per MOU (**CSI1**) =

[1994 Base Year RRQ @ 11.25% (As of 2/95)]

÷

[1994 Access Minutes]

96/97 Test Period (TP)
April '96 Annual Filing

For Each Small Cost Company Incentive Study Area

Second Initial Switched Settlement Rate per MOU (**CSI2**) =

[1994 Base Year RRQ @ 11.25% (As of 2/96)]

÷

[1994 Access Minutes]

SMALL COMPANY INCENTIVE PLAN

COST COMPANY SETTLEMENT RATES

Traffic Sensitive Switched (TSSW) Access: ***97/98 Test Period (TP)***
April '97 Annual Filing

For Each Small Cost Company Incentive Study Area

First Switched Settlement Rate per MOU (**CSA1**) =

As of February '97:

**[½ X 1995 RRQ @ 11.25% + 1996 RRQ @ 11.25% +
½ X 1997 RRQ @ 11.25%]**

÷

[7/95 through 6/97 Access Minutes]

Traffic Sensitive Switched (TSSW) Access: ***98/99 Test Period (TP)***
April '98 Annual Filing

For Each Small Cost Company Incentive Study Area

Second Switched Settlement Rate per MOU (**CSA2**) =

As of February '98:

**[½ X 1995 RRQ @ 11.25% + 1996 RRQ @ 11.25% +
½ X 1997 RRQ @ 11.25%]**

÷

[7/95 through 6/97 Access Minutes]

SMALL COMPANY INCENTIVE PLAN

COST COMPANY SETTLEMENT RATES

Traffic Sensitive Special Access: ***95/96 Test Period (TP)***
April '95 Annual Filing

For Each Small Cost Company Incentive Study Area

Initial Unadjusted Retention Ratio (**CXI1**) =

[1994 Base Year RRQ @ 11.25% (As of 2/95)]

÷

[(1/94 through 6/94 Revenue) X (7/94 RAF) +

(7/94 through 12/94 Revenue)]

Initial Retention Ratio (**CPI1**) used for monthly settlements =

CPI1 = CXI1 ÷ (7/95 RAF)

7/95 Rate Adjustment Factor (**RAF**) =

{(Pool Revenue @ 7/95 Proposed Rates)
X 95/96 TP Demand}

÷

{(Pool Revenue @ 6/94 Rates) X 95/96 TP Demand}

SMALL COMPANY INCENTIVE PLAN

COST COMPANY SETTLEMENT RATES

Traffic Sensitive Special Access: ***96/97 Test Period (TP)***
April '96 Annual Filing

For Each Small Cost Company Incentive Study Area

Unadjusted Second Retention Ratio (**CXI2**) =

[1994 Base Year RRQ @ 11.25% (As of 2/96)]

÷

[(1/94 through 6/94 Revenue) X (7/94 RAF) +

(7/94 through 12/94 Revenue)]

Second Retention Ratio (**CPI2**) used for monthly settlements =

CPI2 = CXI2 ÷ (7/96 RAF)
÷ (7/95 RAF) ÷ (Other RAF[5]s)

[5] Other RAFs are for midcourse correction filings (if any).

SMALL COMPANY INCENTIVE PLAN

COST COMPANY SETTLEMENT RATES

Traffic Sensitive Special Access: ***97/98 Test Period (TP)***
April '97 Annual Filing

For Each Small Cost Company Incentive Study Area

First Unadjusted Retention Ratio (**CXA1**) =

As of February '97:

**[½ X 1995 RRQ @ 11.25% + 1996 RRQ @ 11.25% +
½ X 1997 RRQ @ 11.25%]**

÷

**[(7/95 through 6/96 Revenue) X (7/96 RAF) +
(7/96 through 1/97 Revenue) +
(2/97 + 6/97 Forecasted Revenue)]**

First Adjusted Retention Ratio (**CPA1**) for monthly settlements =

CPA1 = CXA1 ÷ (7/97 RAF)

SMALL COMPANY INCENTIVE PLAN

COST COMPANY SETTLEMENT RATES

Traffic Sensitive Special Access: ***98/99 Test Period (TP)***
April '98 Annual Filing

For Each Small Cost Company Incentive Study Area

Second Unadjusted Retention Ratio (**CXA2**) =

As of February '98:

[½ X 1995 RRQ @ 11.25% + 1996 RRQ @ 11.25% +
½ X 1997 RRQ @ 11.25%]

÷

[(7/95 through 6/96 Revenue) X (7/96 RAF) +
(7/96 through 1/97 Revenue) +
(2/97 + 6/97 Forecasted Revenue)]

Second Retention Ratio (**CPA2**) used for monthly settlements =

CPA2 = CXA2 ÷ (7/98 RAF)
÷ (7/97 RAF) ÷ (Other RAFs)

SMALL COMPANY INCENTIVE PLAN

COST COMPANY SETTLEMENT RATES

Common Line (CL) Access:

95/96 Test Period (TP)
April '95 Annual Filing

For Each Small Cost Company Incentive Study Area

Initial Common Line Settlement Rate per MOU (**CCI1**) =

**[1994 Base Year CL RRQ @ 11.25% (As of 2/95) -
(1994 End User Revenue)]**

÷

**[1994 CL Access Minutes X
(1994 Access Minutes/1993 Access Minutes)]**

96/97 Test Period (TP)
April '96 Annual Filing

For Each Small Cost Company Incentive Study Area

Second Initial Common Line Settlement Rate per MOU (**CCI2**) =

**[1994 Base Year CL RRQ @ 11.25% (As of 2/96) -
(1994 End User Revenue)]**

÷

**[1994 CL Access Minutes X
(1994 Access Minutes/1993 Access Minutes)]**

SMALL COMPANY INCENTIVE PLAN

COST COMPANY SETTLEMENT RATES

Common Line (CL) Access:

97/98 Test Period (TP)
April '97 Annual Filing

For Each Small Cost Company Incentive Study Area

First Common Line Settlement Rate per MOU (**CCA1**) =

As of February '97:

[½ X 1995 RRQ @ 11.25% + 1996 RRQ @ 11.25% +
½ X 1997 RRQ @ 11.25% -
(7/95 → 6/97 End User Revenue)]

÷

[(7/95 through 6/97 CL Access Minutes) X
(7/96 → 6/97 Access Minutes)/(7/95 → 6/96 Access Minutes)]

98/99 Test Period (TP)
April '98 Annual Filing

For Each Small Cost Company Incentive Study Area

Second Common Line Settlement Rate per MOU (**CCA2**) =

As of February '98:

[½ X 1995 RRQ @ 11.25% + 1996 RRQ @ 11.25% +
½ X 1997 RRQ @ 11.25% -
(7/95 → 6/97 End User Revenue)]

÷

[(7/95 through 6/97 CL Access Minutes) X
(7/96 → 6/97 Access Minutes)/(7/95 → 6/96 Access Minutes)]

SMALL COMPANY INCENTIVE PLAN

AVERAGE SCHEDULE SETTLEMENT RATES

Traffic Sensitive Switched (TSSW) Access:

95/96 Test Period (TP)
April '95 Annual Filing

For Each Average Schedule Company Incentive Study Area

First Initial Switched Settlement Rate per MOU (**ASI1**) =

[7/94 → 12/94 TS Settlements @ 11.25% (As of 2/95)]

÷

[7/94 → 12/94 TS Access Minutes]

96/97 Test Period (TP)
April '96 Annual Filing

For Each Average Schedule Company Incentive Study Area

Second Initial Switched Settlement Rate per MOU (**ASI2**) =

[7/94 → 6/95 TS Settlements @ 11.25% (As of 2/96)]

÷

[7/94 → 6/95 TS Access Minutes]

SMALL COMPANY INCENTIVE PLAN

AVERAGE SCHEDULE SETTLEMENT RATES

Traffic Sensitive Switched (TSSW) Access: ***97/98 Test Period (TP)***
April '97 Annual Filing
For Each Average Schedule Company Incentive Study Area

First Switched Settlement Rate per MOU (**ASA1**) =

As of February '97:

[7/96 Settlement Formula X
(7/96 → 12/96 Settlement Demand[1])]

÷

[7/96 through 12/96 Access Minutes]

[1] Monthly Demand Data Request Required 7/96 → 6/97.

Traffic Sensitive Switched (TSSW) Access: ***98/99 Test Period (TP)***
April '98 Annual Filing
For Each Average Schedule Company Incentive Study Area

Second Switched Settlement Rate per MOU (**ASA2**) =

As of February '98:

[7/96 Settlement Formula X
(7/96 → 6/97 Settlement Demand[1])]

÷

[7/96 through 6/97 Access Minutes]

[1] Monthly Demand Data Request Required 7/96 → 6/97.

SMALL COMPANY INCENTIVE PLAN

AVERAGE SCHEDULE SETTLEMENT RATES

Traffic Sensitive Special Access: ***95/96 Test Period (TP)***
April '95 Annual Filing

For Each Average Schedule Company Incentive Study Area

First Initial Retention Ratio (**AXI1**) =

AXI1 = Average Schedule Retention Ratio Effective 7/94

Initial Adjusted Retention Ratio (**API1**) for monthly settlements =

API1 = AXI1 ÷ (7/95 RAF)

7/95 Rate Adjustment Factor (**RAF**) =

{(Pool Revenue @ 7/95 Proposed Rates)
X 95/96 TP Demand}

÷

{(Pool Revenue @ 6/94 Rates) X 95/96 TP Demand}

SMALL COMPANY INCENTIVE PLAN

AVERAGE SCHEDULE SETTLEMENT RATES

Traffic Sensitive Special Access: ***96/97 Test Period (TP)***
April '96 Annual Filing

For Each Average Schedule Company Incentive Study Area

Second Adjusted Retention Ratio (**API2**) for monthly settlements =

API2 = AXI1 ÷ (7/95 RAF) ÷ (7/96 Proposed RAF) ÷ (Other RAF[6]s)

[6] Other RAFs are for midcourse correction filings (if any).

SMALL COMPANY INCENTIVE PLAN

AVERAGE SCHEDULE SETTLEMENT RATES

Traffic Sensitive Special Access: ***97/98 Test Period (TP)***
April '97 Annual Filing

For Each Average Schedule Company Incentive Study Area

First Unadjusted Retention Ratio (**AXA1**) =

AXA1 = Average Schedule Retention Ratio Effective 7/96

First Adjusted Retention Ratio (**APA1**) for monthly settlements =

APA1 = AXA1 ÷ (7/97 RAF)

SMALL COMPANY INCENTIVE PLAN

AVERAGE SCHEDULE SETTLEMENT RATES

Traffic Sensitive Special Access: ***98/99 Test Period (TP)***
April '98 Annual Filing

For Each Average Schedule Company Incentive Study Area

Second Unadjusted Retention Ratio (**AXA2**) =

AXA2 = Average Schedule Retention Ratio Effective 7/96

Second Retention Ratio (**APA2**) used for monthly settlements =

APA2 = AXA2 ÷ (7/98 RAF)
÷ (7/97 RAF) ÷ (Other RAFs)

SMALL COMPANY INCENTIVE PLAN

AVERAGE SCHEDULE SETTLEMENT RATES

Common Line (CL) Access:

95/96 Test Period (TP)
April '95 Annual Filing

For Each Average Schedule Company Incentive Study Area

Initial Common Line Settlement Rate per MOU (**ACI1**) =

[7/94 → 12/94 CL Settlements @ 11.25% (As of 2/95)
- End User Revenue]

÷

[7/94 → 12/94 CL Access Minutes X
(7/94 → 12/94 Access Minutes)/(7/93 → 12/93 Access Minutes)]

96/97 Test Period (TP)
April '96 Annual Filing

For Each Average Schedule Company Incentive Study Area

Second Initial Common Line Settlement Rate per MOU (**ACI2**) =

[7/94 → 6/95 CL Settlements @ 11.25% (As of 2/96)
- End User Revenue]

÷

[7/94 → 6/95 CL Access Minutes X
(7/94 → 6/95 Access Minutes)/(7/93 → 6/94 Access Minutes)]

SMALL COMPANY INCENTIVE PLAN

AVERAGE SCHEDULE SETTLEMENT RATES

Common Line (CL) Access:

97/98 Test Period (TP)
April '97 Annual Filing

For Each Average Schedule Company Incentive Study Area

First Common Line Settlement Rate per MOU (ACA1) =

As of February '97:

[7/96 CL Settlement Formula X
(7/96 → 12/96 CL Settlement Demand[1]) - End User Revenue]

÷

[(7/96 through 12/96 Access Minutes) X
(7/96 → 12/96 Access Minutes)/(7/95 → 12/95 Access Minutes)]

[1] **Monthly Demand Data Request Required 7/96 → 6/97.**

98/99 Test Period (TP)
April '98 Annual Filing

For Each Average Schedule Company Incentive Study Area

Second Common Line Settlement Rate per MOU (ACA2) =

As of February '98:

[7/96 CL Settlement Formula X
(7/96 → 12/96 CL Settlement Demand[1]) - End User Revenue]

÷

[(7/96 through 6/97 Access Minutes) X
(7/96 → 6/97 Access Minutes)/(7/95 → 6/96 Access Minutes)]

[1] **Monthly Demand Data Request Required 7/96 → 6/97.**

TARIFF RATE DEVELOPMENT

Traffic Sensitive Switched (TSSW) Access
95/96 Test Period (TP) - April '95 Annual Filing

Total Pool Revenue Requirement to be recovered in filing,
For the Local Switching Element[7]:

[*Standard Cost Company* RRQ (95/96 TP)]
+
[*Standard Average Schedule* RRQ (95/96 TP)]
+
[*Customer Dividend RRQ*: { Σ (DSI1 X 95/96 TS MOU X (1-.0065) } X LS_P]
+
Small Company Incentives:
[*Cost Company:* { Σ (CSI1 X 95/96 TS MOU) } X LS_C]
+
[*Average Schedule:* { Σ (ASI1 X 95/96 TS MOU) } X LS_A]
+
[*NECA* Administrative Expenses]

Where "Σ" is the Sum of the Products for all Study Areas.

After Revenue Requirement is identified, remaining rate development is unchanged from current methods, i.e., Rates X forecasted TP pool demand are set to equal the total pool revenue requirement.

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[7] The calculation displayed is for Local Switching only For the other elements, just substitute the other element's ratio for the local switching ratio. For Traffic Sensitive Switched, the Access Elements are Local Switching (LS), Information Surcharge (IS), Transport (TR), Directory Assistance (DA), Operator Transfer Service (OT), and Line Information Data Base (LB). A ratio for LS, IS, TR, DA, OT, and LB is calculated based on the total revenue requirements in the settlement rate cost study or forecast for pooling LECs in each of the three incentive plans. For example, assume that the revenue requirements for all Customer Dividend incentive LECs are $6.0 million, $0.2 million, $3.7 million, $0.0 million, $0.1 million, and $0.0 million for LS, IS, TR, DA, OT, and LB, respectively. Then the ratios used in the Customer Dividend revenue requirement development will be: 60%, 2%, 37%, 0%, 1%, and 0% for LS_P, IS_P, TR_P, DA_P, OT_P, and LB_P, respectively

Traffic Sensitive Switched (TSSW) Access: ***96/97 Test Period (TP)***
April '96 Annual Filing

Revenue Requirement for Local Switching =

[*Standard Cost Company* RRQ (96/97 TP)]
+
[*Standard Average Schedule RRQ* (96/97 TP)]
+
[*Customer Dividend RRQ*: { Σ (DSI2 X 96/97 TS MOU X (1-.0065)^2)
+
(Σ(DSI2 - DSI1) X (1-.0065) X 95/96 TS MOU[8])} X LS_P]
+
Small Company Incentives:
[*Cost Company:* { Σ (CSI2 X 96/97 TS MOU)
+
(Σ(CSI2 - CSI1) X 95/96 TS MOU)} X LS_C]
+
[*Average Schedule:* { Σ (ASI2 X 96/97 TS MOU)
+
(Σ(ASI2 - ASI1) X 95/96 TS MOU) } X LS_A]
+
[*NECA* Administrative Expenses]

[8] 95/96 MOU is calculated in February '96. Since only seven months of actual data is reported at this time, at least five months need to be forecasted.

Traffic Sensitive Switched (TSSW) Access: ***97/98 Test Period (TP)***
April '97 Annual Filing

Revenue Requirement for Local Switching =

[*Standard Cost Company* RRQ (97/98 TP)]
+
[*Standard Average Schedule* RRQ (97/98 TP)]
+
[*Customer Dividend RRQ*[9]: { Σ (DSA1 X 97/98 TS MOU X (1-.0065))
+
(Σ(DSI3 - DSI2) X (1-.0065) X (7/95 → 6/96 TS MOU))
+
(Σ(DSI3 - DSI2) X (1-.0065)^2 X (7/96 → 6/97 TS MOU))} X LS_P]
+
Small Company Incentives:
[*Cost Company:* { Σ (CSA1 X 97/98 TS MOU)
+
(Σ(CSI3 - CSI2) X (7/95 → 6/97 TS MOU))} X LS_C]
+
[*Average Schedule:* { Σ (ASA1 X 97/98 TS MOU)
+
(Σ(ASI3 - ASI2) X (7/95 → 6/97 TS MOU))} X LS_A]
+
[*NECA* Administrative Expenses]

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[9] If there are new Incentive LECs, their revenue requirements will be calculated similar to the initial switched calculation for the April 1995 filing, but the dates for the base revenue requirements and demand will be advanced two years.

TARIFF RATE DEVELOPMENT

Traffic Sensitive Switched (TSSW) Access: ***98/99 Test Period (TP)***
April '98 Annual Filing

Revenue Requirement =

[*Standard Cost Company* RRQ (98/99 TP)]
+
[*Standard Average Schedule RRQ* (98/99 TP)]
+
[*Customer Dividend RRQ*: {Σ (DSA2 X 98/99 TS MOU X (1-.0065)^2)
+
(Σ(DSA2 - DSA1) X 97/98 TS MOU) X (1-.0065)} X LS_P]
+
Small Company Incentives:
[*Cost Company:* {Σ (CSA2 X 98/99 TS MOU)
+
(Σ(CSA2 - CSA1) X 97/98 TS MOU)} X LS_C]
+
[*Average Schedule Company:* {Σ (ASA2 X 98/99 TS MOU)
+
(Σ(ASA2-ASA1) X 97/98 TS MOU)
+
(Σ(ASI4-ASI3) X (7/95 → 6/97 TS MOU)} X LS_A]
+
[*NECA* Administrative Expenses]